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Philip Morris Companies Inc.

Review of full year results

Buy

- Strong earnings gains from U.S. and international cigarette operations.
- Major restructuring under way in General Foods' coffee business.
- Genuine Draft and Milwaukee's Best boost Miller's barrelage.
- Stock selling at 23% discount to S&P 500 represents unusually good value. Reiterate buy (1) rating.

Philip Morris reported fourth quarter and full year earnings per share of $1.48 and $10.03, respectively. Fourth quarter earnings from continuing operations were actually $2.45 per share, since the $1.48 figure included the following two factors: 1) a $0.91 per share charge related to a reserve established for the restructuring of General Foods' domestic coffee business and 2) a $0.06 per share fourth quarter charge associated with the adoption of SFAS 96 (which for the full year 1988 actually is a credit; see our discussion under point number 5 below). The $2.45 for the fourth quarter compares to $2.02 per share earned a year earlier and to our baseline estimate of $2.54 per share. The variance from forecast derives from the larger than expected operating loss from the domestic coffee business (a $50 million loss versus our estimate of $5 million).

For 1989, we are lowering our earnings per share estimate by $0.10, to $11.65 from $11.75. That would be a 16% increase over last year's reported $10.03. For 1990, we anticipate EPS of $14.00, a 20% increase over our 1989 estimate.

Highlights of the year are given below:

1. Domestic cigarette units increased 1.7% for the full year. The industry was off an estimated 2.1%. Operating earnings for the division increased 14%, on target with our forecast.

1/25 price $103½ NYSE — MO 52-week range $80½ - 103½

FY 12/31	1987	1988	1989E
Q1	$1.62	$3.25	$2.45
Q2	2.00	2.61	3.09
Q3	2.11	2.68	3.18
Q4	2.02	1.48	2.93
Year	7.75	10.03	11.65
P/E			8.9
Div.	$3.00	$3.83	$4.50
Yield			4.3%
Secular Growth Rate			18%

Optionable

2. Overseas, cigarette volume was up 4.4%, with increases in Europe (up 5%) and Asia (up 10%), offset in part by a unit decline in Latin America (off an estimated 4.5%). Operating income for the international cigarette business increased 33%.
3. Miller Brewing Company experienced its best volume growth of the 1980s, with a 3.5% increase. Barrelage growth was led by gains from Genuine Draft (up an estimated 45%) and Milwaukee's Best (up 15%). Operating income for the division increased 12%.
4. General Foods' performance was a mixed bag, with General Foods U.S.A. strong (up 8% in volume and 14% in operating income), and the worldwide/coffee division weak (a 34% decline in earnings and a unit gain of 1%). Oscar Mayer achieved a 10% increase in volume and a 15% increase in operating income.

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5. The $0.91 per share restructuring charge related to the coffee business was taken fully in the fourth quarter. By contrast, the $0.91 depreciation catch-up credit associated with the adoption of SFAS 96 will affect all four quarters of 1988. The effect is a restatement of last year's quarters as shown in Table 1 (there is some rounding error).

Additional information is available upon request.

Table 1

	1988 Credit charges from SFAS 96	1988 Restated earnings per share
1st Qtr.	+$1.13	$3.25
2nd Qtr.	-0.07	2.61
3rd Qtr.	-0.08	2.68
4th Qtr.	-0.06	1.48
	$0.91	$10.03

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